

**MEASURES "M" AND "O" GENERAL OBLIGATION
BONDS BUILDING FUND OF
SAN MATEO UNION HIGH SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended
June 30, 2013**



**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

For the Fiscal Year Ended June 30, 2013

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Introduction

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Introduction and Citizens' Oversight Committee Member Listing
June 30, 2013*

San Mateo Union High School District (the District) consists of seven high schools and a continuation school, supported by a District Office. The District serves approximately 8,000 students.

On November 7, 2006, the voters of the San Mateo Union High School District approved by a 66.5% approval, Measure "M", authorizing the issuance and sale of \$298 million of general obligation bonds. The bonds are being issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

On November 2, 2010, an election was held of the registered voters of the District, at which 66.9% of the voters voting on the proposition approved Measure "O", authorizing the issuance and sale of \$186 million principal amount of General Obligation Bonds. On June 15, 2011, the District issued \$89,999,989 of Election of 2010 Series 2011A, General Obligation Bonds. The bonds are being issued to 1) prepay the District's 2007 Certificates of Participation, 2) finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) pay certain costs of issuance associated with the bonds.

The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond Proposition pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2013.

**SAN MATEO UNION HIGH SCHOOL DISTRICT
CITIZENS' OVERSIGHT COMMITTEE**

<u>Name</u>	<u>Title</u>	<u>Representation</u>
Patricia Griffin, Ph.D.	Chair	Senior Citizen Group Representative
Don Freeman	Member	Business Organization/Senior Citizen Group Representative
Mike Loy	Member	At-Large Community Member
Mark Jones	Member	Parent/ Guardian of Child in District - Active in Parent Teacher Organization
Lee Manus-McNutt	Member	Senior Citizen Group Representative
Julie Hoffman	Member	Parent/ Guardian of Child in District - Active in Parent Teacher Organization; Taxpayer Organization Representative
Jonathan Ng	Member	Parent/ Guardian of Child in District - Active in Parent Teacher Organization
John Doyle	Member	Parent/ Guardian of Child in District

Financial Section

INDEPENDENT AUDITORS' REPORT

The Board of Trustees and the
Citizens' Bond Oversight Committee
San Mateo Union High School District
San Mateo, California

We have audited the accompanying financial statements of the Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

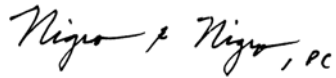
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District, as of June 30, 2013, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measures "M" and "O" General Obligation Bonds Building Fund and do not purport to, and do not, present fairly the financial position of the San Mateo Union High School District, as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



December 5, 2013

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Balance Sheet

June 30, 2013

	<u>Measure "M"</u>	<u>Measure "O"</u>
ASSETS		
Cash	\$ 7,500,537	\$ 13,661,608
Accounts receivable	135,411	-
Total Assets	<u>\$ 7,635,948</u>	<u>\$ 13,661,608</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 5,486,426	\$ 231,017
Fund Balance		
Restricted for capital projects	<u>2,149,522</u>	<u>13,430,591</u>
Total Liabilities and Fund Balance	<u>\$ 7,635,948</u>	<u>\$ 13,661,608</u>

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**
*Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2013*

	<u>Measure "M"</u>	<u>Measure "O"</u>
REVENUES		
Interest earnings	\$ 262,193	\$ 122,452
Other local revenue	1,282,959	-
	<hr/>	<hr/>
Total Revenues	1,545,152	122,452
	<hr/>	<hr/>
EXPENDITURES		
Plant Services:		
Classified salaries	283,140	-
Benefits	119,871	-
Materials and supplies	666,508	650,537
Services and other operating expenditures	10,357	25
Capital outlay	69,627,183	1,165,808
	<hr/>	<hr/>
Total Expenditures	70,707,059	1,816,370
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(69,161,907)	(1,693,918)
Fund Balance, July 1, 2012	71,311,429	15,124,509
	<hr/>	<hr/>
Fund Balance, June 30, 2013	\$ 2,149,522	\$ 13,430,591
	<hr/> <hr/>	<hr/> <hr/>

MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND OF SAN MATEO UNION HIGH SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 7, 2006 the District voters authorized \$298 million in General Obligation Bonds (Measure "M") for the purpose of financing the modernization and construction of school facilities within the District. On November 2, 2010, voters authorized an additional \$186 million in General Obligation Bonds (Measure "O") to 1) prepay the District's 2007 Certificates of Participation, 2) finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) pay certain costs of issuance associated with the bonds. The measures required a minimum 55% vote for passage. In response, an advisory committee to the District's Governing Board and Superintendent, the Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include ensuring compliance with conditions of Measures "M" and "O".

The Bond proceeds are accounted for in the District's Building Fund using resource codes 0700 and 0600, where they are expended for the approved projects. The statements presented are for the individual Measures "M" and "O" General Obligation Bonds Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

B. Accounting Policies

The San Mateo Union High School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Measures "M" and "O" General Obligation Bonds Building Fund are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND OF SAN MATEO UNION HIGH SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

NOTE 2 – CASH

Pooled Funds

In accordance with Education Code Section 41001, the District maintains all of its cash for the bonds in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2013, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 consisted of \$135,411 for rebates from Pacific Gas and Electric.

NOTE 4 –GENERAL OBLIGATION BONDS

A. Measure "M"

On November 7, 2006, the voters of the San Mateo Union High School District approved by a 66.5% approval Measure "M", authorizing the issuance and sale of \$298 million of general obligation bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

B. Measure "O"

On November 2, 2010, an election was held of the registered voters of the District, at which 66.9% of the voters voting on the proposition approved Measure "O", authorizing the issuance and sale of \$186 million principal amount of General Obligation Bonds. The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here. The bonds are being issued to 1) prepay the District's 2007 Certificates of Participation, 2) finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) pay certain costs of issuance associated with the bonds.

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 4 –GENERAL OBLIGATION BONDS (continued)

A summary of outstanding Measures "M" and "O" general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013
Measure "M":								
2008A	6/18/2008	2032	4.0% - 5.0%	\$ 62,700,000	\$ 57,995,000	\$ -	\$ 120,000	\$ 57,875,000
2010A	2/17/2010	2018	5.0% - 5.5%	4,890,000	2,660,000	-	-	2,660,000
2010B	2/17/2010	2034	4.6% - 6.15%	65,110,000	65,110,000	-	-	65,110,000
2011A	7/6/2011	2051	2.0% - 7.0%	34,999,364	34,999,364	-	232,308	34,767,056
2011A-1	7/14/2011	2027	5.01%	25,000,000	25,000,000	-	-	25,000,000
2012A	2/13/2012	2039	4.0% - 12.0%	10,895,752	10,895,752	-	-	10,895,752
Subtotal Measure "M"				203,595,116	196,660,116	-	352,308	196,307,808
Measure "O":								
2011A	6/15/2011	2041	2.23% - 6.7%	89,999,989	89,999,989	-	-	89,999,989
Total Measures "M & O"				<u>\$ 293,595,105</u>	<u>\$ 286,660,105</u>	<u>\$ -</u>	<u>\$ 352,308</u>	<u>\$ 286,307,797</u>

The requirements to amortize outstanding general obligation bonds related to Measures "M" and "O" are as follows:

Fiscal Year	Principal	Interest	Total
2013-14	\$ 1,935,877	\$ 10,705,787	\$ 12,641,664
2014-15	2,687,369	10,773,862	13,461,231
2015-16	3,294,177	10,537,227	13,831,404
2016-17	2,754,288	10,300,009	13,054,297
2017-18	3,210,094	10,197,419	13,407,513
2018-23	25,101,697	48,809,252	73,910,949
2023-28	46,107,952	45,062,236	91,170,188
2028-33	67,401,330	83,348,185	150,749,515
2033-38	45,662,376	125,990,559	171,652,935
2038-43	68,161,000	128,814,836	196,975,836
2043-48	8,587,125	61,799,906	70,387,031
2048-52	11,404,512	55,569,121	66,973,633
Total	<u>\$ 286,307,797</u>	<u>\$ 601,908,399</u>	<u>\$ 888,216,196</u>

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 5 – BOND ANTICIPATION NOTES

2011 Issuance

On February 24, 2011, the District issued General Obligation Bond Anticipation Notes in the amount of \$65,000,000. The Notes are payable from the proceeds of general obligation bonds to be issued by the District pursuant to a duly called election of the registered voters of the District held on November 7, 2006. The Notes were issued to finance the costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities in anticipation of proceeds from general obligation bonds to be issued by the District pursuant to the Authorization. The Notes were issued as \$40,150,000 Current Interest Notes with an interest rate of 2% and scheduled to mature in February of 2012; and \$24,850,000 Capital Appreciation Notes with a yield to maturity of 3.75% and fully maturing on February 15, 2015.

2012 Issuance

On February 13, 2012, the District issued \$40,150,000 of General Obligation Bond Anticipation Notes. The Notes are payable from the proceeds of general obligation bonds to be issued by the District pursuant to a duly called election of the registered voters of the District held on November 7, 2006. The Notes were issued to repay the maturing 2011 General Obligation Bond Anticipation Current Interest Notes, currently outstanding in an aggregate principal amount of \$40,150,000.

The 2012 Notes were issued as capital appreciation notes with a yield to maturity of 1.35% and fully maturing on February 15, 2015 at a full maturity value of \$42,510,000.

A summary of outstanding Bond Anticipation Notes at June 30, 2013 is shown below:

Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2012	Additions	Deductions	Balance, June 30, 2013
2/24/2011	2015	2.0% - 3.75%	\$ 65,000,000	\$ 24,850,000	\$ -	\$ -	\$ 24,850,000
2/13/2012	2015	1.35%	40,150,000	40,150,000	-	-	40,150,000
				<u>\$ 65,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,000,000</u>

The requirements to amortize outstanding bond anticipation notes are as follows:

Fiscal Year	Principal	Interest	Total
2013-14	\$ -	\$ -	\$ -
2014-15	65,000,000	7,255,000	72,255,000
Total	<u>\$ 65,000,000</u>	<u>\$ 7,255,000</u>	<u>\$ 72,255,000</u>

NOTE 6 – CONSTRUCTION COMMITMENTS

At June 30, 2013, the District had commitments with respect to unfinished Measure "M" capital projects of approximately \$2.8 million and Measure "O" capital projects of approximately \$1.2 million.

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 7 – EXPENDITURES BY PROJECT

Below is a summary of Measure "M" expenditures by project for the 2012-13 fiscal year:

<u>Project Description</u>	<u>Project Number</u>	<u>Expenditures</u>
AHS, CHS, HHS, MHS Pool System Replacement	0005	\$ 28,244
San Mateo High School Biotech Project	0007	42,114
Aragon High School Theatre	0008	1,216,870
Hillsdale High School Theatre	0009	9,924,607
Burlingame High School Cafeteria Renovation	0011	445
Burlingame High School Gym & Locker Room Renovation	0012	1,406
Capuchino High School New Classroom Building	0013	627,495
Aragon High School Industrial Arts Building	0016	31,217
Burlingame High School Industrial Arts Building	0017	118,048
Capuchino High School Theatre Renovation	0020	6,696,647
Hillsdale High School Industrial Arts Building & Cafeteria Renovation	0023	34,883
Mills High School New Classroom Building	0025	66,850
Mills High School Building 'A' Renovation & Locker Room	0026	45,141
Burlingame High School Theatre Renovation	0031	26,908
Aragon High School Miscellaneous Civil Projects	0033	1,938,471
Burlingame High School Miscellaneous Civil Projects	0034	1,788,183
Capuchino High School Miscellaneous Civil Projects	0035	439,895
Hillsdale High School Miscellaneous Civil Projects	0036	1,546,076
Mills High School Miscellaneous Civil Projects	0037	1,181,441
Aragon High School Locker Room & Gym Renovation	0040	4,093,432
Mills High School Theatre & Gym Renovation	0042	13,806,952
San Mateo High School Performing Arts Center Renovation	0043	18,747,463
San Mateo High School Miscellaneous Civil Projects	0044	22,629
Capuchino High School Robotic Arts	0047	233,144
Solar Installation & Re-Roof	0048	6,560,754
Measure 'M' Administrative Costs	8500	1,487,744
Total Expenditures		<u><u>\$ 70,707,059</u></u>

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

Notes to Financial Statements

June 30, 2013

NOTE 7 - EXPENDITURES BY PROJECT (continued)

Below is a summary of Measure "O" expenditures by project for the 2012-13 fiscal year:

<u>Project Description</u>	<u>Project Number</u>	<u>Expenditures</u>
Measure 'O' Technology	0050	\$ 513,137
New Classroom Building "F"	0052	563,684
BHS Bleacher Replacement	0053	86,299
Brick Building Modernization	0054	419,655
SMHS Bleacher Replacement	0055	83,535
Radio Communications Upgrade	0056	137,400
Measure 'M' Administrative Costs	8500	<u>12,660</u>
Total Expenditures		<u>\$ 1,816,370</u>

NOTE 8 - CONTINGENCIES

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2013.

The District has been named in a suit by a former builder in a claim for alleged failure to pay for services rendered and related damages at Capuchino High School. The District intends to contest the case and intends to file an affirmative claim for failure to complete the project under contract in a timely manner. Damages claimed by the builder against the District are approximately \$6 million, the District's assertion for damages against the builder are approximately \$3 million. It is too early as of the date of this report to assess any outcome, either favorable or unfavorable.

Other Independent Auditors' Reports



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees and the
Citizens' Bond Oversight Committee
San Mateo Union High School District
San Mateo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Mateo Union High School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the San Mateo Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the San Mateo Union High School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

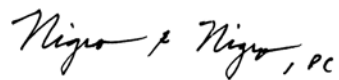
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Mateo Union High School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 5, 2013

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Trustees and the
Citizens' Bond Oversight Committee
San Mateo Union High School District
San Mateo, California

We have examined San Mateo Union High School District's compliance with the performance requirements for the Proposition 39 Measures "M" and "O" General Obligation Bonds for the fiscal year ended June 30, 2013, under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

The objectives of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The expenditures charged to the San Mateo Union High School District Measures "M" and "O" Bonds are documented.
- Expenditures charged to Measures "M" and "O" have been made in accordance with each bond's project list approved by the voters through the approval of the Measures.
- Any discrepancies or weaknesses in internal controls are noted and recommendations for improvement are provided.
- The District Board and the Citizens' Oversight Committee are provided with a performance audit report as required under the requirements of the California Constitution and Proposition 39.

Scope of the Audit

The scope of our performance audit covered the fiscal period from July 1, 2012 to June 30, 2013. The expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than the proceeds of the bonds, were also included within the scope of our audit. Expenditures incurred subsequent to June 30, 2013 were not reviewed or included within the scope of our audit or in this report.

Procedures Performed

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2013 for the Building Fund . Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measures "M" and "O" with regards to the approved bond projects list. We performed the following procedures:

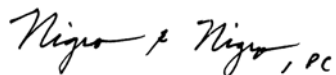
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We reviewed the approved project listing as set out in the Measures "M" and "O" election documents.
- We verified that funds from the Building Fund were expended for the construction, reconstruction, acquisition, furnishing and equipping of District facilities constituting the authorized bond projects, and we verified that funds held in the Measures "M" and "O" Building Fund were not used for salaries of school administrators or other operating expenses of the District.
- We tested approximately \$36.3 million in bond fund invoices paid. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included payments made to subcontractors and other vendors.
- We visited construction sites at San Mateo, Capuchino, and Mills High Schools to ensure that expenditures made corresponded with the actual work performed at the site.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to the Public Contract Code Section 20111.
- We verified that the District did not exceed change order limitations in excess of 10% pursuant to Public Contract Code.

Our audit of compliance made for the purpose set forth in the preceding paragraph would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for Measures "M" and "O" General Obligation Bonds proceeds listed and tested above.

This report is intended for the information of the Board of Trustees, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.



December 5, 2013